

Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-25 EA-11 ISO-00 SP-03 AID-20 EB-11 NSC-07

RSC-01 CIEP-02 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 PA-04 PRS-01 USIA-15 FEA-02 SCI-06

AGR-20 DRC-01 (ISO) W

----- 085110

R 191718Z APR 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9681

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 04901

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING APRIL 19

BEGIN SUMMARY: THE POUND CLOSED AT \$2.36125 LAST THURSDAY
(APRIL 11) AND FELL TO \$2.3570 ON TUESDAY (APRIL 16)

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FOLLOWING THE TWO-DAY CLOSURE OF THE LONDON MARKET DUE TO

THE EASTER HOLIDAY. THE POUND STRENGTHENED AGAINST THE DOLLAR DURING THE REST OF THE WEEK, CLOSING AT \$2.3720 ON THURSDAY (APRIL 18). THE AVERAGE WEIGHTED DEPRECIATION REMAINED VIRTUALLY UNCHANGED ALL WEEK AT ABOUT 17.6 PERCENT. GOLD FELL BACK IN PRICE TO CLOSE AT \$170.00 ON THURSDAY (APRIL 18). THE BANK OF ENGLAND ANNOUNCED THE RELEASE OF A FURTHER 149 MILLION POUNDS OF SPECIAL DEPOSITS TO STEADY INTEREST RATES (I.E. KEEP THEM FROM RISING AFTER THE RECENT FALL). IN MARCH THE UK RECORDED A CURRENT ACCOUNT DEFICIT OF 371 MILLION POUNDS, WITH A VISIBLE TRADE DEFICIT OF 453 MILLION POUNDS AND AN INVISIBLES SURPLUS OF 82 MILLION POUNDS. INDUSTRIAL PRODUCTION BEGAN TO RECOVER IN FEBRUARY AFTER A SHARP FALL IN JANUARY. RETAIL SALES DROPPED BY 2 PERCENT BETWEEN 4TH Q 1973 AND 1ST Q 1974. HOWEVER, CONSUMER SPENDING ONLY FELL BY 1.6 PERCENT BETWEEN THE TWO QUARTERS. BASIC WEEKLY WAGE RATES ROSE BY 1.3 PERCENT IN MARCH TO STAND 15.0 PERCENT ABOVE A YEAR AGO. AVERAGE EARNINGS FOR FEBRUARY SHOWED ONLY AN 8.4 PERCENT YEARLY INCREASE BUT THIS FIGURE WAS DISTORTED BY THE THREE-DAY WEEK. END SUMMARY

1. THE POUND MOVED DOWNWARD AT THE BEGINNING OF THE WEEK IN REACTION TO THE LOWERING OF U.K. INTEREST RATES. HOWEVER, AS THE DOLLAR WEAKENED, THE POUND ROSE AND CLOSED AT \$2.3720 ON THURSDAY (APRIL 18), UP FROM \$2.36125 LAST THURSDAY. THE AVERAGE WEIGHTED DEPRECIATION AGAINST SMITHSONIAN RATES WAS STEADY ALL WEEK AND AT THE CLOSE ON THURSDAY (APRIL 18) WAS 17.65 PERCENT COMPARED TO 17.64 PERCENT A WEEK AGO. GOLD CLOSED AT \$170.00 ON THURSDAY, DOWN \$3.25 FROM LAST THURSDAY'S CLOSE.

2. THE BANK OF ENGLAND ANNOUNCED ON THURSDAY (APRIL 18) THAT IT WOULD RETURN A FURTHER 149 MILLION POUNDS OF SPECIAL DEPOSITS TO THE BANKING SYSTEM ON MONDAY (APRIL 22) BY REDUCING THE PERCENT OF THE BANKS' ELIGIBLE LIABILITIES SUBJECT TO SPECIAL DEPOSITS FROM 3-1/2 PERCENT TO 3 PERCENT. THE PURPOSE OF THE MOVE IS TO AVERT A POSSIBLE RISE IN INTEREST RATES DURING THE NEXT TWO WEEKS, RATHER THAN TO ENCOURAGE RATES TO FALL ANY FARTHER. THE BANK SAID THAT IN THE ABSENCE OF OFFSETTING ACTION, THE EXPECT-

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EDEXCHEQUER SURPLUS DURING THE NEXT 10 DAYS (FROM PAYMENTS OF ADVANCE CORPORATION TAX AND PAYE) WOULD "RESULT IN PRESSURE ON RESERVE ASSET RATIOS AND MONEY MARKET INTEREST RATES WHICH WOULD BE LIKELY TO REVERSE THE REDUCTION IN INTEREST RATES WHICH FOLLOWED THE RELEASE OF SPECIAL DEPOSITS EARLIER THIS MONTH." THIS MOVE MEANS THAT DURING APRIL, 1-1/2 PERCENT (OR SOME 450 MILLION POUNDS) OF SPECIAL DEPOSITS WILL HAVE BEEN RETURNED TO THE BANKING

SYSTEM.

3. IN MARCH, THE U.K. CURRENT ACCOUNT WAS IN DEFICIT BY A RECORD 371 MILLION POUNDS. THE VISIBLE TRADE DEFICIT WAS 453 MILLION POUNDS (S.A.) OF WHICH 294 MILLION POUNDS WAS ACCOUNTED FOR BY THE DEFICIT ON TRADE IN OIL. THE BALANCE ON SERVICES AND OTHER CURRENT TRANSACTIONS IS ESTIMATED TO HAVE BEEN RUNNING A MONTHLY SURPLUS OF ABOUT 82 MILLION POUNDS. IN THE FIRST QUARTER THE CURRENT BALANCE WAS IN DEFICIT BY 1,020 MILLION POUNDS COMPARED WITH A DEFICIT OF 729 MILLION IN FOURTH QUARTER 1973. (DETAILS FOLLOW SEPTEL.)

4. THE INDEX FOR INDUSTRIAL PRODUCTION ROSE BY 1.6 PERCENT

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

L-03 H-03 PA-04 PRS-01 USIA-15 ABF-01 FSE-00 DRC-01

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R 191718Z APR 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9682

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

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TO 101.2 IN FEBRUARY COMPARED TO 99.4 IN JANUARY AND 105.9 IN DECEMBER (1970100). RECOVERY IN MANUFACTURING PRODUCTION WAS STRONGER, RISING 4.6 PERCENT IN FEBRUARY TO 104.6 COMPARED TO 99.8 IN JANUARY AND 106.6 IN DECEMBER (L970100). CLEARLY, PRODUCTION WAS STILL BADLY AFFECTED BY THE THREE-DAY WEEK.

5. THE INDEX OF THE VOLUME OF RETAIL SALES WAS 110.5 IN UNCLASSIFIED

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MARCH, UNCHANGED FROM FEBRUARY (1971100). HOWEVER, FOR 1ST QUARTER 1974 AS A WHOLE, THE VOLUME WAS DOWN 2 PERCENT FROM 4TH QUARTER 1973. DESPITE THE WIDELY EXPECTED TAX INCREASE IN THE BUDGET, THERE IS VERY LITTLE EVIDENCE OF A MAJOR PRE-BUDGET SPENDING SPREE.

6. THERE WAS A FALL OF 1.6 PERCENT IN CONSUMERS' EXPENDITURE IN THE FIRST QUARTER OF 1974 - FROM 8,923 MILLION POUNDS TO 8,780 MILLION POUNDS (S.A., 1970 CONSTANT PRICES). THIS FALL IS LESS THAN THE FALL WHICH OCCURRED BETWEEN THE FIRST AND SECOND QUARTERS OF 1973, DUE TO THE PRE-VAT SPENDING SPREE, MEANING THAT THE IMPACT OF THE INTRODUCTION OF VAT ON SPENDING BEHAVIOR WAS GREATER THAN THAT OF THREE-DAY WORKING.

7. BASIC WEEKLY WAGE RATES ROSE BY 1.3 PERCENT IN MARCH, THE INDEX STANDING AT 125.6 COMPARED TO 124 IN FEBRUARY (JULY 1972100). SOME TWO-THIRDS OF THIS INCREASE WAS DIRECTLY ATTRIBUTABLE TO THE EFFECTS OF THE MINERS' SETTLEMENT. THE INDEX FOR AVERAGE EARNINGS, WHICH LAGS BY A MONTH, STANDS AT 156.6 FOR FEBRUARY STILL BELOW THE LEVEL OF 161.4 REACHED IN DECEMBER.

8. THE FORWARD DISCOUNTS ON STERLING WIDENED SHARPLY ON TUESDAY (APRIL 16) BUT NARROWED ON WEDNESDAY AND THURSDAY.

	4/11	4/18	CHANGE
1 MONTH	1.55	1.40	DOWN 0.15
3 MONTHS	4.60	4.30	DOWN 0.30
6 MONTHS	8.65	8.45	DOWN 0.20

(ALL FIGURES IN CENTS)

9. LOCAL AUTHORITY DEPOSIT RATES MOVED GENERALLY DOWNWARD

OVER THE WEEK.

	4/11	4/18	CHANGE
1 MONTH	13-1/4	12-3/4	DOWN 1/2
3 MONTHS	13-1/2	13-5/8	UP 1/8
6 MONTHS	13-7/8	13-5/8	DOWN 1/4

10. EURODOLLAR RATES SHOWED A MIXED PATTERN DURING THE WEEK.

	4/11	4/18	CHANGE
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1 MONTH	10-1/2	10-1/4	DOWN 1/4
3 MONTHS	10-1/2	10-3/8	DOWN 1/8
6 MONTHS	10-5/8	10-1/4	DOWN 3/8

11. THE MINIMUM LENDING RATE REMAINED AT 12 PERCENT ON FRIDAY, APRIL 19.

ANNENBERG

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